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CENTRAL INTELLIGENCE AGENCY

BOARD OF NATIONAL ESTIMATES

6 November 1952

MEMORANDUM FOR THE BOARD

SUBJECT: NIE-56 -- attached

1. This is the first of a series of estimates covering the same problem for various areas of the world. These estimates were requested by G-2 in the interests of the Munitions Board about a year ago, and authorized by the IAC.

2. There are two aspects to the problem: (a) identification of the resources of the area which are "important", and (b) the estimate of the likelihood of losing these resources. With the first question O/NE is not fitted to deal, and this paper therefore reproduces in part the list of resources identified as important by the Economic Intelligence Committee in its contribution. In the second question -- estimating the likelihood of losing these resources -- O/NE makes its contribution; this presumably constitutes the main justification for issuing these papers as NIE's.

3. The substance of the present draft has been discussed with O/RR; the form is the result of several successive attempts at an acceptable draft.

Abbot E. Smith

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Chief, Estimate Staff

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CENTRAL INTELLIGENCE AGENCY

6 November 1952

SUBJECT: NIE-56: LIKELIHOOD OF THE LOSS OF IMPORTANT ECONOMIC
RESOURCES OF THE FAR EAST (for Board consideration)

THE PROBLEM

To estimate the likelihood that those resources of the Far East which are important to the security of the US and the non-Communist world might be denied, in whole or in part, to the US and the non-Communist world before the end of 1954.

ASSUMPTION

That there will be no general war between the US and the USSR during the period of this estimate.

CONCLUSIONS

1. The resources of the Far East most important to the US and the non-Communist world are: tin, tungsten, chromite, rutile, rubber, abaca, coconut oil, and wool. The loss of certain basic food commodities -- wheat, rice, dairy products, and meat -- would also present serious problems to the United Kingdom, South Asia, and certain Far Eastern countries.

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2. Of these twelve commodities, the following eight will almost certainly remain wholly available during the period of this estimate: chromite, rutile, abaca, coconut oil, wool, wheat, dairy products, and meat.

3. Continued access to the four remaining important Far Eastern commodities -- tin, rubber, tungsten, and rice -- will depend largely upon continued containment of Communist forces in Indochina and Korea and upon the maintenance of at least the present degree of internal order in Burma, Malaya, and Indonesia. We believe that:

a. Complete denial of Far Eastern tin and rubber to non-Communist countries during the period of this estimate is unlikely. We believe it probable that present levels of exports will be maintained or even raised. Since the situation in the producing countries is unstable, however, the possibility of temporary interruptions of supply cannot be excluded.

b. The supply of tungsten will almost certainly not be entirely denied to the US and probably will not be severely curtailed.

c. Rice exports from Burma, Thailand and Indochina, which are already low as compared with pre-World War II levels, are not likely to fall lower, and may increase.

4. In addition to the commodities above listed, the uranium production of Australia could become important to the

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security interests of the US and the non-Communist world during the period of this estimate. This production will almost certainly not be denied to the US and its allies.

DISCUSSION

I. THE IMPORTANT RESOURCES OF THE FAR EAST

5. The Far East is the source of a large number of strategic commodities required by the US and the non-Communist world. If the importance of these commodities is measured by the difficulty their denial would create for the US and the non-Communist world in allocating remaining supplies or in substituting other materials, the following Far Eastern resources appear most important:

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<u>Resources</u>	<u>Countries Possessing</u>	<u>Description</u>
Tungsten	South Korea	Produces 17% of the non-Communist world's exports and possesses one of world's three largest tungsten deposits.
	Burma	Produces 5% of non-Communist world's exports
	Thailand	Produces 6% of non-Communist world's exports
	Australia	Produces 9% of non-Communist world's exports
Rice	Indochina-Thailand-Burma	Produce 70% of the world's exportable surplus
Tin	Malaya	Produces 38% of non-Communist world's exports
	Thailand	Produces 7% of non-Communist world's exports
	Indonesia	Produces 22% of non-Communist world's exports
Natural rubber	Indonesia	Produces 47% of non-Communist world's exports
	Malaya	Produces 36% of non-Communist world's exports
	Thailand	Produces 6% of non-Communist world's exports
Chromite	Philippines	Produces 40-45% of non-Communist world's exports of refractory grade and 12% of metallurgical grade
Albaca	Philippines	Produces 85% of non-Communist world's exports
Copra	Philippines	Produces 47% of non-Communist world's exports

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<u>Resources</u>	<u>Countries Possessing</u>	<u>Description</u>
Rutile	Australia	Produces 99% of non-Communist world's exports
Wheat	Australia	Exports 3,000,000 tons, or 13% of non-Communist world's total exports
Meat and Dairy Products	Australia, New Zealand	Produce 50% of non-Communist world's exports
Wool	Australia, New Zealand	Produce 60% of non-Communist world's exports

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II. LIKELIHOOD OF LOSS OF THE RESOURCES OF SPECIFIC COUNTRIES

resources in the Far East might be denied to the US and its allies by local military action, by policies of individual governments which might eliminate the production, sale, or allocation of those resources, or by civil disorders which might impede the production and transportation of these resources.

A. SOUTH KOREA

8. The outcome of the current Korean armistice negotiations, or of any political negotiations which might follow, will affect the availability of South Korean resources. If large-scale military operations are renewed, the tungsten mines may be put out of operation or captured. If an armistice is concluded and if UN occupation of South Korea is continued, tungsten mining will probably be maintained and the South Korean government will probably continue to sell tungsten to the US. The actual rate of extraction of tungsten, however, will probably be at less than capacity levels, because of the chaotic character of South Korea's economic and political life. If UN forces should be withdrawn from South Korea, conditions would be such that a continued flow of metal from the mines to the US would be uncertain.

B. INDOCHINA

9. The situation in Indochina will probably remain substantially unchanged during the period of this estimate, and the

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availability of Indochinese resources will not be further diminishes. A decisive Communist military victory in Indochina would expose Burma and Thailand to increased subversion and intimidation and might lead to overthrow of existing non-Communist governments or to their accommodation with the Communists. We estimate, however, that the present stalemate in the Indochina war will continue at least through mid-1953 and probably through the period of this estimate.*

C. BURMA

10. The Burmese Government emerged from the 1951-52 elections with substantial support, and its military forces have reduced insurgent strength from 1951 levels. Although it is improbable that the government will eliminate the guerrilla movement during the period of this estimate or eliminate the various communal tensions and factional quarrels which weaken governmental strength and effectiveness, we estimate that the present degree of stability will not be lessened and may increase during the period of this estimate. Burmese exports will probably not decline, and may increase.

D. THAILAND

11. The Communist movement within Thailand is almost certainly too weak to overthrow the regime, and probably will be

* For a more detailed discussion of this subject, see NIE-35/1, "Probable Developments in Indochina through Mid-1953."

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unable to bring about any substantial alterations in government policy, or to jeopardize the economic life of the country.

Externally-supported Communist activities and pressure might be more successful, particularly if there were a significant deterioration of the non-Communist position in Burma or Indochina.

Failing this, there will probably be no reduction in the availability of Thai resources during the period of this estimate.

E. MALAYA

12. The Communist guerrilla movement in Malaya currently threatens the availability of Malayan resources and will probably continue to do so during the period of this estimate. However, the anti-guerrilla measures recently employed by the British have been effective and will probably continue to reduce the strength of the guerrilla movement unless the Communists introduce large-scale aid from the outside.

F. INDONESIA

13. The continued availability of Indonesian resources is threatened by widespread instability in Indonesia. The Communist Party controls much of the labor movement and exercises considerable influence through front groups. Indonesian political leadership is inexperienced and faction-ridden. Moreover, the government itself, though non-Communist, is intensely nationalist and neutralist. Instability is likely to continue in Indonesia

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for the period of this estimate. As a consequence, there may be interference with the production and delivery of certain resources. The government may come under increasing pressure from leftist elements to increase its shipments of important commodities to Soviet bloc countries. Unless the Communists should gain control of mainland Southeast Asia, however, we believe that non-Communists control of Indonesia will continue and that Western access to Indonesia's resources will not be interdicted by Communist activity during the period of this estimate.

G. THE PHILIPPINES

14. There is little or no likelihood that the resources of the Philippines will be denied to the US and the non-Communist world during the period of this estimate. Both the major Philippine political parties are strongly anti-Communist and are developing more competent and energetic leadership. Internal security forces are improving and are making substantial progress against the Communist-led guerrillas. Measures are being taken, with US aid, to attack the causes of economic unrest. Although political and economic weaknesses and susceptibilities to Communist propaganda and subversion remain, no serious threats to the orientation and stability of the Philippine Government are likely to develop during the period of this estimate.

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H. AUSTRALIA AND NEW ZEALAND

15. There is no likelihood that the resources of these countries will be denied to non-Soviet bloc countries during the period of this estimate. A highly vocal and well-organized Communist faction exists in Australia, but it is almost certain that it will not be able to reduce the availability of Australian resources to the US and the non-Communist world.

III. LIKELIHOOD OF CONTINUED AVAILABILITY OF SPECIFIC RESOURCESA. Tin

16. Two-thirds of the tin exported by non-Communist countries comes from Malaya, Thailand, and Indonesia; of this Malaya exports over half and Indonesia about one-third. If tin from the Far East were entirely denied to non-Communist countries, the present rate of consumption would exhaust stockpiles within two years.

17. Complete loss of the tin resources of the Far East is not likely during the period of this estimate. It is possible that tin exports to the US might be severely reduced through the loss or substantial reduction of exports from Malaya and/or Indonesia, but we believe it more probable that the present level of exports will be maintained or slightly increased.

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B. Tungsten

The US depends upon imports for approximately 60% of its annual consumption of tungsten. Apart from annual consumption, the US is building a stockpile which is at present about one-third complete. Of the total amount of tungsten exported by non-Communist countries, Far Eastern countries account for about 35%. The tungsten-producers in the Far East are South Korea, Burma, Thailand, and Australia.

19. South Korea possesses one of the world's three largest tungsten deposits (located just south of the 38th parallel). In 1950, despite wartime conditions, South Korea exported 1,040 metric tons of tungsten or approximately 17% of that exported by non-Communist countries in the world. Of the other three tungsten sources in the Far East, Burma produces approximately 5% of total non-Communist production; Thailand approximately 6%; and Australia approximately 9%. Loss or substantial reduction of Far Eastern exports of tungsten to the West would have serious effects upon the US stockpiling program and probably would create severe problems of allocation for essential use.

20. There is little likelihood that the tungsten resources of the Far East will be entirely lost to the US and the non-Communist world during the period of this estimate. Australian production, approximately one-fourth of the Far Eastern supply, is virtually

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certain to remain available. Burmese and Thai production will probably also remain available during the period of this estimate. The continued availability of South Korean production, approximately half of the Far Eastern supply of tungsten, is less certain. (See Section II, B above.)

C. Chromite

21. The Philippines produce about 15% of the world's total exportable surplus of chromite and about 40-45% of the refractory grade of chromite, a metal of superior quality used for lining furnaces. Most of the Philippine production is purchased by the US. The US stockpile of refractory ore is only about 40% in excess of one year's Philippine production.

22. There is little or no likelihood that this resource will be denied to the US and the non-Communist world during the period of this estimate.

D. Rutile

23. In the past five years Australia has produced 99 percent of the exports by non-Communist countries of rutile, a metal used principally for coating welding rods. The US absorbs 60% of the Australian export. Although the US produces rutile, US consumption has far exceeded its own production since the beginning of the rearmament program.

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24. There is virtually no likelihood that this resource will be denied to the US and the non-Communist world during the period of this estimate.

E. Uranium

25. Australia is the only country in the Far East where significant quantities of radioactive minerals have been found. Recent discoveries indicate that Australia may become one of the leading uranium producers of the world. The US is presently purchasing the Australian uranium output, but is not dependent upon the Australian source. On the other hand, if Australia in fact becomes a large producer, the US will be vitally interested in continued access to the supply.

26. There is virtually no likelihood that this resource would be denied to the US and the non-Communist world during the period of this estimate.

F. Rubber

27. Rubber is second only to tin in importance as a Far Eastern resource. Three countries -- Indonesia, Malaya, and Thailand -- produce 90% of the natural rubber exported by non-Communist countries of the world. Of this amount, Indonesia produces over half; Malaya over a third; and Thailand about a twentieth.

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28. Loss of this resource would have serious effects.

If the US continued its present rate of production of synthetic rubber, the present rate of rubber consumption in the West could be maintained for only two years. If synthetic production were increased by a third, this period could be stretched to five years. However, natural rubber stockpiles would become exhausted during this period.

29. Complete loss of the rubber resources of the Far East is not likely during the period of this estimate. It is possible that rubber exports to the US may be severely reduced during this period through the loss of substantial reduction of exports from Malaya and/or Indonesia, but we believe it more probable that the present level of exports will be maintained or slightly increased.

G. Fibers

30. Abaca and wool are the two chief fibrous products exported from the Far East. About 85% of the world's export of abaca, used mainly for marine cordage, nets, and rope, comes from the Philippines. The present US stockpile represents about seven months of Philippines production and about fourteen months of current US requirements. Substitute materials could be found for many but not all uses.

31. Australia exports 67% of the wool exported by non-Communist countries. The US imports about 65% of the wool it uses in making clothing; about 40% of these imports come from Australia.

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32. There is virtually no likelihood that either Philippine abaca or Australian wool will be denied to the US and the non-Communist world during the period of this estimate.

H. Copra

33. The Philippine produce about 47% of the world's exportable surplus of copra and coconut oil. The two products have certain food uses, particularly in Europe, and extensive industrial uses. Although US imports are derived exclusively from the Philippines, the US produces fats and oils from other sources which could substantially reduce its dependence. Western Europe, except for the UK, is heavily dependent upon Far Eastern supplies. The US could probably supply Europe with substitutes from its own surplus production of fats and oils, but this would create extensive exchange and budgetary problems.

34. There is no likelihood that Philippine copra will be denied to the US and the non-Communist world during the period of this estimate.

I. Rice

35. 70% of the world's exportable surplus of rice is grown in Indochina, Thailand, and Burma; four-fifths of the export goes to other countries of Asia. The principal importers are: India, Malaya, Ceylon, Japan, and Indonesia. No country outside Asia would be directly affected by loss of the Far Eastern rice supply, but such loss would be critical for Malaya and Ceylon and

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would seriously affect India, Indonesia, and Japan. The consequent instability would threaten US interests throughout the Far East.

36. Unstable conditions in Indochina, Thailand, and Burma have kept the volume of rice exports below prewar levels. It is not likely to be further decreased during the period of this estimate, on the contrary, some increase may occur.

J. Meat and Dairy Products

37. Australia and New Zealand supply one-third of the meat, one-half of the butter, and one-third of the cheese entering world markets. The UK obtains about three-fourths of its total supply of these products from Australia and New Zealand.

38. Loss of these supplies is not likely during the period of this estimate.

K. Wheat

39. Australia exports about 3 million tons of wheat annually, or about 13 percent of the total exported by non-Communist countries. Australia is the most important exporter of wheat within the sterling area. Loss of this wheat would have a serious effect upon the UK, India, Egypt, New Zealand, and Japan.

40. Loss of this supply is not likely during the period of this estimate.

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